

PUBLIC RETIREMENT SYSTEMS COMMITTEE

MEMBERSHIP

Senator Sheldon Rittmer
Temporary Co-chairperson
Senator Michael Connolly
Senator Richard Drake
Senator John Kibbie
Senator Mary Lundby

Representative Mona Martin
Temporary Co-chairperson
Representative John Connors
Representative Chuck Gipp
Representative Danny Holmes
Representative Rick Larkin

REVISED TENTATIVE AGENDA

Tuesday, November 16 and Wednesday, November 17, 1999
Room 19, State Capitol

Tuesday, November 16, 1999

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|-------------------------|--|
| 10:00 a.m. – 10:15 a.m. | Preliminary Business Elect Co-chairpersons Adopt Rules Opening Remarks |
| 10:15 a.m. – 11:00 a.m. | Presentation Concerning the Municipal Fire and Police Retirement System of Iowa (Chapter 411) Dennis Jacobs, Executive Director |
| 11:00 a.m. – 11:20 a.m. | Iowa League of Cities Ann Hutchinson, Mayor, Bettendorf |
| 11:20 a.m. – 12:00 noon | Presentation from Organizations Primarily Concerned with the Municipal Fire and Police Retirement System of Iowa Tom Fey, on behalf of the following: Iowa Professional Firefighters, Iowa Association of Professional Fire Chiefs, Iowa State Police Association, Iowa Police Chiefs Tom Powers, Waterloo Fire Department |
| 12:00 noon – 1:00 p.m. | Lunch |
| 1:00 p.m. – 1:30 p.m. | Presentation Concerning the Peace Officers' Retirement System Carroll Bidler, Director of Administrative Services |
| 1:30 p.m. – 2:15 p.m. | Presentations from Organizations Primarily Concerned with the Peace Officers' Retirement System Diane Reid, on behalf of the following: Iowa State Troopers Association, Iowa State Patrol Supervisors Association Richard Reddick, President, Retired Iowa State Peace Officers' Association |
| 2:15 p.m. – 2:45 p.m. | Presentation Concerning the Judicial Retirement System Peggy Sullivan, Director of Finance and Personnel, Judicial Branch |
| 2:45 p.m. – 3:15 p.m. | Iowa Judges Association Judge John Nahra |

Wednesday, November 17, 1999

- 9:00 a.m. – 9:15 a.m. Mollie Anderson, Director, Iowa Department of Personnel
- 9:15 a.m. – 11:15 a.m. Presentation Concerning the Iowa Public Employees' Retirement System (IPERS – Chapter 97B)
Greg Cusack, Chief Benefits Officer
Kathy Comito, Chief Investment Officer
Patrice Beckham, Consulting Actuary
- 11:15 a.m. – 11:30 a.m. IPERS Constituent Group
Lowell Dauenbaugh
- 11:30 a.m. – 12:00 noon Presentations Primarily Concerned with the Iowa Public Employees' Retirement System
Dr. Gaylord Tryon, School Administrators of Iowa
Iowa State Education Association
Peter Pashler and Gary Ray, School Administrator Issue
- 12:00 noon – 1:00 p.m. Lunch
- 1:00 p.m. – 2:00 p.m. Presentations Primarily Concerned with the Iowa Public Employees' Retirement System (Continued)
Ted Stilwell, Director, Iowa Department of Education
Walt Galvin, Iowa Retired School Personnel Association
Dr. Gene Gardner, Iowa Association of Community College Trustees
Janie Gaar, IPERS Improvement Association
Mike Campbell, AFSCME
- 2:00 p.m. – 2:30 p.m. Presentations from Employer Organizations Concerned with the Iowa Public Employees' Retirement system
Jennifer Owenson, Iowa Association of School Boards
Andi Stewart, Iowa League of Cities
- 2:30 p.m. – 3:15 p.m. Presentations from Organizations Primarily Concerned with IPERS Special Classifications
Susan Cameron, Iowa State Sheriffs and Deputies Association
Chief Deputy Bill Sage, Iowa State Sheriffs and Deputies Association
LaVerne Schroeder, Iowa Association of Chiefs of Police and Peace Officers, Airport Firefighters
Diane Reid, Iowa Fish and Game Conservation Officers' Association, Iowa State Park Rangers Association
- 3:15 p.m. – 3:45 p.m. Committee Discussion and Directions to Staff
Set Next Meeting Date



Legislative
Service Bureau

MINUTES

Public Retirement Systems Committee

November 16 and 17, 1999

MEMBERS PRESENT:

Senator Sheldon Rittmer, Co-chairperson
Senator Mike Connolly
Senator Richard Drake
Senator John Kibbie
Senator Mary Lundby

Representative Mona Martin, Co-chair-
person
Representative John Connors
Representative Chuck Gipp
Representative Danny Holmes
Representative Richard Larkin

MEETING IN BRIEF

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Organizational staffing
provided by: Ed Cook,
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Minutes prepared by: Rick
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- I. Procedural Business.
- II. Municipal Fire and Police Retirement System (MFPRSI).
- III. Peace Officers' Retirement System (PORS).
- IV. Judicial Retirement System.
- V. Iowa Public Employees' Retirement System (IPERS).
- VI. Presentations Primarily Concerned With IPERS.
- VII. Presentations From Employer Organizations Concerned With IPERS.
- VIII. Presentations From Organizations Primarily Concerned With IPERS Special Classifications.
- IX. Committee Discussion.
- X. Written Materials Filed With the Legislative Service Bureau.



Public Retirement Systems Committee

I. Procedural Business.

Call to Order. The Public Retirement Systems Interim Study Committee was called to order at 10:10 a.m. on Tuesday, November 16, 1999, in Room 19 of the State Capitol.

Preliminary Business. All Committee members were in attendance. Senator Drake nominated temporary co-chairpersons Senator Rittmer and Representative Martin as permanent co-chairpersons, and they were elected by the Committee. Senator Kibbie moved that proposed rules be adopted, and they were approved by the Committee.

Opening Remarks. Co-chairpersons Senator Rittmer and Representative Martin welcomed Committee members, and indicated that the first two of three authorized meetings for this Interim Committee would be devoted to receiving testimony from various organizations and individuals concerned with public retirement. The co-chairpersons further indicated that they anticipate the development and adoption of recommendations during the third authorized meeting, to be held during the month of December, 1999.

November 16 Adjournment. The November 16 meeting recessed for lunch at 11:35 a.m., reconvened at 1:00 p.m., and adjourned for the day at 3:25 p.m.

November 17 Call to Order and Adjournment. The Public Retirement Systems Interim Study Committee was called to order at 9:05 a.m. on Wednesday, November 17, 1999, in Room 19 of the State Capitol for the second of three authorized meeting days during the 1999 Legislative Interim. All Committee members were in attendance. The November 17 meeting recessed for lunch at 12:10 p.m., reconvened at 1:05 p.m., and adjourned for the day at 3:35 p.m.

II. Municipal Fire and Police Retirement System (MFPRSI).

Overview. Dennis Jacobs, Executive Director, MFPRSI, provided an overview and status report concerning the system. Mr. Jacobs provided a brief description of the history of the system since its statutory creation in 1990 and a discussion of the goals of the system. Specific goals include consistent application of the benefit statute, improved liability assessment and reporting, improved benefit plan financial profile and performance on portfolio assets, and the development of program recommendations to the Legislature. Mr. Jacobs indicated that, in his estimation, these goals are being met.

Recent Activities. Mr. Jacobs also provided a compilation of the recent major activities and accomplishments of the MFPRSI's Board of Trustees and Administration Division. They included completion of a comprehensive periodic review of the actuarial assumptions utilized for valuation of the plan, a review of the MFPRSI disability program, participation in a joint legislative study with representatives of the Iowa Public Employees Retirement System (IPERS) and Peace Officers' Retirement System (PORS), adoption of a revised investment policy, and a review of the existing goals of MFSPRI and formulation of a new mission and goal statement.



Plan Description. Mr. Jacobs additionally provided a description of the MFPRSI retirement plan and its programs, including statistical information describing the current system, a summary of the plan benefits, identification of member cities, a description of the level of benefit activity and of plan asset and investment performance, and additional actuarial information. Mr. Jacobs noted that the system is experiencing a decrease in disability applications and lowered liability costs, and emphasized that disability applications are reviewed and decided upon after careful consideration.

Issues. Mr. Jacobs also summarized significant issues which the MFPRSI continues to monitor and act upon, citing concerns regarding the recently adopted escalator program, post-retirement health care cost concerns, the impact of federal interest in public retirement funds, disability-related litigation, and possible legislative changes to Iowa Code chapter 411, which is the MFPRSI governing statute. The legislative changes or recommendations had not yet been approved as of the date of Mr. Jacobs' testimony, and Mr. Jacobs indicated they would be forthcoming after the November 18, 1999, meeting of the MFPRSI Board of Trustees.

In response to a question regarding the prospect of job sharing among police and fire safety personnel, with the goal of promoting increased time spent with families and reducing job-related stress, Mr. Jacobs indicated that several changes would need to be made regarding the current coverage of permanent full-time employees, with disability coverage a particular concern, and that he would look into what might be involved.

Iowa League of Cities. Ann Hutchinson, Mayor, Bettendorf, Iowa, presented recommendations for legislative changes to MFPRSI advocated by the Iowa League of Cities. The changes include removal of the presumption for prospective employees that heart and lung disease is job-related if the individual smokes, institution of fitness standards for prospective employees, institution of a temporary disability program for individuals pending a final determination of disability, and elimination of the minimum contribution levels required of both employees and employers and allowing the level to be established by the system actuary. In response to Committee questions regarding the heart and lung disease presumption, Ms. Hutchinson indicated that it is impossible to monitor smoking status of off-duty personnel, and that programs are offered to assist with smoking cessation efforts.

Iowa Association of Professional Fire Chiefs; Iowa State Police Association; Iowa Chiefs of Police and Peace Officers Association; Iowa Professional Firefighters. Tom Fey, representing the Associations, indicated that the Associations recommend increasing the percentage benefit for service beyond 22 years, up to eight additional years, from 1.5 percent to 2.0 percent for each additional year. The Associations also recommend that the base retirement percentage used to calculate a retirement benefit be raised from 60 percent to 65 percent. Mr. Fey additionally indicated that the Associations oppose consolidation of the public employee retirement systems.

Waterloo Fire Department. Tom Powers, Waterloo Fire Department, indicated that fire fighters from several Iowa cities are not members of the Iowa Professional Firefighters. These fire fighters would prefer that the current method of having the Iowa Professional



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Firefighters select a fire fighter for the board of trustees be changed to a ballot system of all fire fighters within the retirement system.

III. Peace Officers' Retirement System (PORS).

A. Actuarial Information. Carroll Bidler, Director of Administrative Services, PORS, reviewed the actuarial report of the system and indicated that as of June 30, 1999, the funded status of the system is at 133 percent. Mr. Bidler stated that system assets have grown considerably in recent years due to investment performance and contributions, and that projected and accrued liabilities have also increased steadily each year. He noted, however, that the investment return for the year ending June 30, 1999, was lower than the assumed investment return for the system, but Mr. Bidler emphasized that this return could have improved since the June 30th year end. He did note that the system is considering the adoption of a "smoothing mechanism" to determine the actuarial value of assets. Mr. Bidler provided the Committee with the results of an actuarial cost study to determine the impact on the contribution rate for the system if proposed pension enhancements are enacted. He proposed that Iowa Code section 97A.6, subsection 8, be amended to increase the minimum ordinary death benefit award to certain beneficiaries from 20 percent to 25 percent of the monthly compensation earned by a senior patrol officer.

In response to Committee questions, Mr. Bidler indicated that administrative expenses increased due to the addition of many new members and a newly hired employee, and that the current three-person membership of the Board has not been cited as a source of concern. Investment decisions are made with the assistance of investment consultants hired by the Board, working in conjunction with the State Treasurer's Office.

B. Iowa State Troopers Association and Iowa State Patrol Supervisors Association. Diane Reid, representing the Associations, relayed several recommendations, including:

- Maintaining the current minimum employer and employee contributions to the system.
- Changing the multiplier used to calculate a retirement benefit to 2.75 percent for all years of service with a cap of 32 years (maximum benefit of 88).
- Improving the escalator program by revising the current program in a manner similar to the escalator program used by the Municipal Fire and Police System.
- Providing full retirement benefits with no minimum age requirements for those who have at least 30 years of service beginning July 1, 2000.
- Increasing the amount of pension income exempt from state taxes to \$9,000 for a single taxpayer, and \$18,000 for a married filing jointly taxpayer in 2000. In 2001, these amounts would be increased to \$18,000 and \$36,000, respectively.

Ms. Reid indicated that the Associations rejected the recommendation of the benefits parity study to provide a social security supplement since this benefit would not apply until age 62 and life expectancy for public safety employees is shorter than the average.



In response to Committee questions regarding whether the benefit enhancements encourage members to remain employed in a profession which traditionally may be regarded as more suited for younger individuals, Ms. Reid indicated that some states do specify an earlier retirement age, and that additional research should be done in this area.

C. Iowa Retired Peace Officers' Association. Richard Reddick, President, Retired Iowa State Peace Officers' Association, stated that the Association recommends allowing all retirees to receive extra credit for years of service over 22, up to eight additional years, with an increase in benefits of 1.5 percent for each additional year. The Association also supports revision of the escalator program. In response to Committee discussion regarding the July 1, 1990, cut-off date, Co-chairperson Martin requested that Mr. Bidler research options which might be available regarding increasing equity for pre-July 1, 1990, retirees who had more than 22 years of service.

IV. Judicial Retirement System.

A. Judicial Branch. Peggy Sullivan, Director of Finance and Personnel, Judicial Branch, summarized the results of a recent actuarial report and indicated that as of June 30, 1999, the funded ratio of assets to liabilities of the system is now 90 percent. In response to questions regarding an apparent decrease in investment income in the fund from 1998 to 1999, a representative from the State Treasurer's Office, Gene Lackershire, discussed investment strategies and monitoring practices. Senator Connolly indicated he would be interested in obtaining additional information relating to the selection and performance of investments made under the direction of the State Treasurer's Office.

B. Iowa Judges Association. Judge John Nahra, Chief Judge of the Seventh Judicial District of Iowa, represented the Iowa Judges Association in recommending that the current cap for retiree benefits should be increased from 52 percent to 60 percent of the judge's final salary for a minimum of 20 years of service. Judge Nahra provided a history of the Judicial Retirement System, and noted that since its inception in 1949, the general character of Iowa's judiciary has significantly changed. Newly appointed judges are entering the system at younger ages and at an earlier point in their legal career, with the result that attractive retirement benefits are playing an increasingly significant role in attracting top-level judicial candidates. Judge Nahra summarized an actuarial analysis which indicates that the system's unfunded pension obligation has been nearly eliminated during the preceding six-year period, and that an increase in the maximum pension benefit to 60 percent would not increase the state's annual pension contribution.

V. Iowa Public Employees' Retirement System (IPERS).

A. Director's Comments. Mollie Anderson, Director, Iowa Department of Personnel, indicated that she has proposed to the Governor that the Governor appoint a task force to examine and make recommendations concerning the governance and structure of IPERS. Ms. Anderson emphasized that she recognizes that her fiduciary and administrative responsibilities extend to all members of IPERS, and that she and her staff will do all that



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they can to provide assistance during the upcoming legislative session. She noted that she is in the process of finalizing a "100-Day Report" summarizing observations and recommendations relating to the Department of Personnel. Key recommendations to be contained in the report will regard a focus on workforce planning, departmental reorganization, and the possibility of establishing an internal auditor position. She also noted that IPERS has purchased a headquarters facility at a location close to the airport in Des Moines, and distributed a news release regarding the purchase.

B. Actuarial and Funding Report. Kathy Comito, Chief Benefits Officer, and Patrice Beckham, Consulting Actuary, discussed the financial health of IPERS. As of June 30, 1999, the system's funded ratio of actuarial assets to liabilities is 97 percent. The number of years needed to amortize this unfunded liability is 20 years. Ms. Comito summarized various factors impacting the financial health of IPERS, including actuarial assumptions and methodology, actual system experience, contribution rates, operational expenses, benefit plan design, and funding policy, and characterized each regarding the extent to which IPERS exercises significant control or has significant input.

Ms. Beckham discussed the changes she recommended concerning the various economic and demographic actuarial assumptions used by the system to assess future liabilities, and indicated that the fact that they appear more significant than in previous years is primarily due to technological advancements generating an improved capacity to analyze and predict system performance. New assumptions resulting in an increase in liabilities include lowering mortality rates, earlier retirement ages, and lower termination rates and salary increases for members with longer service. Based on likely projections, Ms. Beckham indicated that the system's unfunded liability would be drastically reduced, or eliminated, by June 30, 2000. Ms. Beckham emphasized that the stability of the system has not been compromised, that it has been five years since the last experience study was conducted, and that the changes are reasonable in light of the improved ability to predict future behavior and performance.

C. Benefit Enhancements. Greg Cusack, Chief Benefits Officer of IPERS, presented several recommendations for benefit enhancements. He indicated that most of the proposed enhancements are of no cost to the retirement system. The recommendations, in priority order, are as follows:



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1. Provide IPERS' special public safety occupations with the same kind of disability benefits provided members of PORS and MFPRSI.
2. Increase the cost of living adjustment for members who retired prior to July 1990, from 80 percent of the consumer price index to 100 percent, retaining the existing ceiling of 3 percent.
3. Place a cap on the favorable experience reserve fund equivalent to 10 years of maximum payouts.
4. Permit retirement without a reduction under the Rule of 85 (age plus years of IPERS-covered service) instead of 88. Delay implementation until the cost can be absorbed within the current contribution rates.
5. Improve the death benefit for the beneficiaries of those members who die before initiating retirement. Delay implementation until the cost can be absorbed within the current contribution rates.
6. For public safety employees within IPERS, establish a fixed contribution rate for both employees and employers in order to provide a margin to purchase additional enhancements in order to further benefit parity among all public safety employees within IPERS, PORS, and MFPRSI.
7. Allow adjunct instructors at community colleges to elect coverage under IPERS if they already have an IPERS account. No cost to the system, but the cost to community colleges should be considered prior to implementation.
8. Replace the current "calendar year" determination for the computation of retirement benefits to 12 contiguous quarters.
9. Allow elected officials other than legislators to terminate their full-time, IPERS-covered positions and retire without having to resign their elected positions.
10. Modify the current phase-in of the impact of the elimination of the cap on covered wages by increasing the default standard by \$10,000 per year, freezing the multiyear averaging at six years, and eliminating the phase-in effective January 2002.
11. Create a "pop-up" option for retirement benefit option 4 to option 2 upon a contingent annuitant's death prior to the member's death.
12. Raise the ceiling on yearly re-employment wages for IPERS retirees under 65 years of age from \$12,000 to \$25,000.

Mr. Cusack indicated that IPERS supports the goal of achieving parity between systems. He also discussed the impact of a recent legislative change providing for the partial refund of employer contributions to IPERS to terminating employees, stating that the number of refund requests has significantly increased as a result.



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VI. Presentations Primarily Concerned with IPERS.

A. IPERS Constituent Group.

Lowell Dauenbaugh, Chairperson, IPERS Constituent Group, addressed the Committee on behalf of the group. The group was formed in 1994 to assist IPERS in making recommendations regarding benefit enhancements. Currently, the group consists of 11 organizations, two state department representatives, one benefits expert, and various IPERS staff members. The consensus position of the constituent group is in favor of the benefit enhancements proposed by IPERS. The constituent group also favors establishment of a board of trustees to govern IPERS. Mr. Dauenbaugh indicated that the group is committed to preserving the financially sound status of IPERS, maintaining a stable contribution rate, and achieving a competitive level of benefits when compared to other state retirement systems.

B. School Administrators of Iowa. Dr. Gaylord Tryon, Executive Director, School Administrators of Iowa, stated that the organization's top priority is to provide an enhanced death benefit to a member's beneficiary as proposed by IPERS. The organization also supports immediate elimination of the current reduction of the three-year highest covered wage used to calculate retirement benefits for certain high-wage employees. Dr. Tryon indicated that the impact of the current phase-in program is that many administrators are delaying retirement until 2003, thereby likely causing severe difficulties in replacing administrators who will decide to wait and retire in that year. He distributed a recently completed Iowa Administrator Retirement Intentions Study projecting that 610 of the 674 administrators eligible for retirement under the Rule of 88 by 2003 indicate an intent to retire that year.

C. Iowa State Education Association. Brad Hudson, representing the Association, noted that it represents approximately 50 percent of IPERS membership. Mr. Hudson indicated that the Association supports adoption of the benefit enhancements included in the recommendations proposed by IPERS. The key issues for the Association are the adoption of the Rule of 85, establishing a board of trustees to govern IPERS, providing an enhanced death benefit, modifying the current phase-in of the covered wage as proposed by IPERS, and increasing the reemployment earnings cap.

D. School Administrator Issue Input. Peter Pashler, an attorney with the law firm of Ahlers, Cooney, Dorweiler, Haynie, Smith and Allbee, and Gary Ray, President, Ray and Associates, provided input regarding the projected school administrator shortage. Mr. Pashler indicated that they share the concerns previously raised regarding the impact of the current phase-in program, and that this is a real, not merely theoretical, threat. Mr. Ray indicated that his firm is involved with school administrator recruitment searches throughout the state, and that they are observing an extreme impending shortage with insufficient potential replacements in many school districts.

E. Older Retirees Perspective. Edward Moses, past president of the State of Iowa Employees Association, provided his perspective regarding IPERS recommendations. Mr.



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Moses indicated that he advocates reevaluation of the pension benefits of older retirees using the 60 percent benefit under the Rule of 88, maintaining the \$55,000 level for the penalty passed in 1996 to eliminate windfalls for higher paid public employees, extension of the penalty limit phase for an additional seven years, and consideration of giving a lump sum cost of living increase to all retired public employees. He also recommended that the pre-1984 death benefit be reinstated.

F. Iowa Department of Education. Ted Stilwill, Director of the Department of Education, stated that the Department believes that the current law providing for the gradual phase-in of the three-year covered wage used to calculate the retirement benefit of certain high-wage employees by 2003 has the potential of harming education in Iowa by creating an unusually high number of school retirees all in 2003. The Department supports the immediate elimination of the current phase-in program, or, at least, an acceleration of the elimination of the current phase-in program as proposed by IPERS. Mr. Stilwill related that, to put the problem in perspective, entire staffs in some schools may be retiring at virtually the same time, and that ultimately, this situation runs directly counter to the best interests of the schoolchildren in the state.

G. Iowa Retired School Personnel Association. Walt Galvin, representing the Iowa Retired School Personnel Association, conveyed support for the adoption of the benefit enhancements recommended by IPERS. The enhancements which directly impact members of the association are going from 80 percent of CPI to 100 percent, the option 4 "pop-up" proposal, with the hope that the option is retroactive to members who have selected option 4 and whose contingent annuitant is still alive, and the proposal to raise the reemployment wages ceiling from \$12,000 to \$25,000.

H. Iowa Association of Community College Trustees. Dr. Gene Gardner, Executive Director, Iowa Association of Community College Trustees, indicated that the Association supports the proposal providing certain adjunct instructors the option of remaining in IPERS so long as this mandate on community colleges is funded. The Association indicated that the cost of this option to community colleges would be a minimum of approximately \$300,000.

I. IPERS Improvement Association. Janie Gaar, appearing for IPERS Improvement Association, stated that the Association membership is open to anyone covered under IPERS in either active or retired status, and that it is a volunteer group maintaining close contact with citizens throughout the state. The Association meets four times annually to review IPERS activities and ascertain concerns. She indicated that the Association supports adoption of the benefit enhancements proposed by IPERS except that they do not favor adoption of the Rule of 85 until the fund can afford it. In addition, while the Association supports most of the proposed modifications in the current phase-in program concerning the three-year covered wage, the Association recommends leaving the maximum multiyear average at seven years and not reducing it to six years.

J. AFSCME. Mike Campbell, representing AFSCME Council 61, provided the Committee with a letter from AFSCME Council 61 President Jan Corderman, supporting the benefit



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enhancements proposed by IPERS. In addition, AFSCME supports establishing a governance board for IPERS, indicating that there are good examples of governing boards already in place in several other states. Additionally, while working toward parity is considered by AFSCME to be a desirable goal, they would oppose efforts to consolidate the several retirement systems currently in existence.

VII. Presentations From Employer Organizations Concerned with IPERS.

A. Iowa Association of School Boards. Jennifer Owenson, representing the Iowa Association of School Boards, stated that the Association's role is to support school board members in providing a quality educational program for all children in the state, and that there is a direct correlation between student achievement and staff quality. Attraction and retention of quality staff, in turn, is enhanced by the provision of compensation and benefits systems which adequately reward educational staff for the work they perform. She indicated that the Association supports the immediate removal of the phase-in of the modification of the covered wage for certain high-wage employees. Because of the current teacher and substitute teacher shortage, the Association opposes going to the Rule of 85, supports the reduction or elimination of the four-month period necessary to establish a bona fide retirement, and supports the IPERS' proposal to raise the ceiling concerning reemployment wages. Some Committee members suggested that the Association reconsider its position with regard to the Rule of 85, and in response Ms. Owenson repeated that the Association's position is from the employer perspective.

B. Iowa League of Cities. Andi Stewart, Manager of Administrative Services for the Iowa League of Cities, informed the Committee that the League supports the recommendations from IPERS and the IPERS Constituent Group, especially the provision concerning elected officials. She indicated that the League has some reservations concerning implementation of the disability program as the increased cost of the program will be an unfunded mandate. The League contends that the implementation date should be modified if the proposal does not pass until near the end of the legislative session. In addition, the League has concerns relative to the disability recommendation about the heart and lung presumption as it relates to smokers, and the lack of a requirement to implement fitness standards.

VIII. Presentations From Organizations Primarily Concerned with IPERS Special Classifications.

A. Iowa State Sheriffs' and Deputies Association. Susan Cameron, representing the Iowa State Sheriffs' and Deputies Association, stated that the Association supports the establishment of a disability retirement program for public safety members of IPERS. The Association also supports establishing a fixed contribution rate so as to permit the funding of other benefit enhancements to provide parity of benefits among all public safety employees in the state. Ms. Cameron indicated, in response to Committee



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questions, that the Association would favor fitness standards, if imposed at the local, rather than state, level pursuant to collective bargaining.

B. Iowa Association of Chiefs of Police and Peace Officers. Laverne Schroeder, representing the Association, indicated support for the establishment of disability benefits and for granting members of the protected occupation classification the same credit for additional years of service as is granted to the sheriff's classification under IPERS.

C. State Police Officers Council – Iowa Fish and Game Conservation Officers Association, Iowa State Park Rangers Association. Diane Reid, representing the Associations, relayed that they support a disability benefit to public safety employees under IPERS, adopting a fixed contribution rate for the special service members of IPERS, combining the two public safety service classifications into one group with similar benefits once the fund can support it within the fixed contribution rate hopefully established for these members, establishing a board of trustees to govern IPERS, and adopting the remaining recommendations of IPERS.

IX. Committee Discussion.

The Committee adopted a motion to require the directors from IPERS, PORS, and MFPRSI, responsible for conducting the benefits parity study completed during 1998, to meet and examine the conclusions of the benefit parity study in light of the various recommendations made during the interim committee meetings, examine the cost implications of possible measures to provide benefits parity, and to report to the Committee at the next meeting of the Committee in December concerning their findings. Several Committee members stated that they favor IPERS legislation being introduced as early in the upcoming legislative session as possible, to avoid the experience in previous years of being relegated to one of the final bills being considered during session. The Committee agreed upon the date of Thursday, December 16, 1999, for the third and final authorized meeting of the 1999 Legislative Interim on public retirement systems.

X. Written Materials Filed With the Legislative Service Bureau.

A. Materials mailed on November 9, 1999:



Public Retirement Systems Committee

1. Updated Legislative Guide on Public Retirement Systems in Iowa from the Legislative Service Bureau.
 2. November 1999 report from IPERS entitled, "A Report Regarding and Recommendations for, Plan Design, Multiyear Benefit Enhancements and Contribution Rates for the Iowa Public Employees' Retirement System" (available at interim meeting).
 3. Confidential memorandum from William Mercer concerning actuarial status of Judicial Retirement System dated September 2, 1999.
 4. November 1998 report entitled, "Comprehensive Examination of Benefit Programs & Related Issues Pertaining to Public Safety Classifications Within IPERS, POR, & MFPRSI."
 5. January 1999 document entitled, "Report to the General Assembly on Whether or Not IPERS Should Offer a Supplemental Savings Plan to all IPERS' Members."
 6. January 1999 document entitled, "Report to the General Assembly Regarding the Establishment of an IPERS' Benefits Advisory Board."
 7. September 1999 document entitled, "Report to the General Assembly on Whether or Not Persons Employed by Community Colleges as Adjunct Instructors Should be Eligible for IPERS' Coverage."
 8. Iowa Administrator Retirement Intentions Study, Executive Summary, by School Administrators of Iowa and Iowa Department of Education, dated October 1999.
 9. Public Retirement Systems Committee Minutes from December 16, 1998.
- B. Materials mailed on November 10, 1999:**
1. October 20, 1999 memo – Cost Studies Regarding PORS.
 2. Iowa Peace Officers' Retirement, Accident and Disability System – Actuarial Valuation Report as of July 1, 1999.
- C. Materials distributed at Public Retirement Interim Meetings:**
1. MFPRSI
 - a. Report to the Public Retirement Systems Committee by the Municipal Fire & Police Retirement System of Iowa, November, 1999.
 - b. Report – Pension Interim Committee – MFPRSI – Mayor Ann Hutchinson, Bettendorf.



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- c. Memorandum dated November 16, 1999 – from Iowa Professional Firefighters, Iowa Professional Fire Chiefs, Iowa State Police Association, Iowa Police Chiefs – Amendments to MFPRSI.
2. PORS
 - a. Proposed amendment of section 97A.6(8) from PORS.
 - b. PORS – Proposed Improvements – Iowa State Troopers Association, Iowa State Patrol Supervisors Association.
 - c. Prepared testimony, Richard Reddick, Retired Iowa State Peace Officers Association.
 3. Judicial Retirement
 - a. Judicial Retirement System – Status of Judicial Retirement Fund – November 16, 1999.
 - b. Confidential memo – William Mercer – Iowa Judicial Retirement Fund Benefit Study – 60 percent Maximum Benefit.
 - c. Statement of the Iowa Judges Association – November 16, 1999.
 4. IPERS
 - a. Testimony for Public Retirement Systems Interim Committee – Mollie Anderson.
 - b. Press release – For immediate release – IPERS headquarters.
 - c. Document prepared by IPERS November 15, 1999, concerning IPERS' financial health.
 - d. Document – IPERS Projected Funded Status as of June 30, 2000 – Milliman & Robertson.
 - e. IPERS – Member Demand Measures for September 1999.
 - f. IPERS – Actuarial Valuation Report as of June 30, 1999 – Milliman & Robertson.
 - g. 1993 – 1998 Experience Study for IPERS – November 12, 1999 – Milliman & Robertson.
 - h. Public Retirement Systems Committee – Lowell Dauenbaugh – IPERS Constituent Group.
 - i. IPERS Presentation – School Administrators of Iowa.
 - j. Iowa County Attorneys Association document.
 - k. Letter dated November 17, 1999 – AFSCME Iowa Council 61.
 - l. Pension Interim Committee – Andi Stewart, Iowa League of Cities.



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- m. Iowa Association of School Boards – Testimony to Public Retirement Systems Committee.
- n. Document listing members of IPERS Investment Board as of November 17, 1999.
- o. IPERS Proposal for 1999 – prepared by Edward Moses.
- p. ISSDA Report to the Legislative Public Retirement Systems Committee (Iowa State Sheriffs' and Deputies Association).
- q. State Police Officers Council document on behalf of Iowa Fish and Game Conservation Officers Association and Iowa State Park Rangers Association.
- r. Iowa Association of Chiefs of Police and Peace Officers Retirement – Peace Officers and Fire Fighters in Cities Under 8,000 – Protected Class.

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PUBLIC RETIREMENT SYSTEMS COMMITTEE

MEMBERSHIP

Senator Sheldon Rittmer

Co-chairperson

Senator Michael Connolly

Senator Richard Drake

Senator John Kibbie

Senator Mary Lundby

Representative Mona Martin

Co-chairperson

Representative John Connors

Representative Chuck Gipp

Representative Danny Holmes

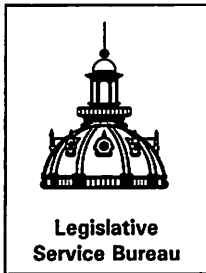
Representative Rick Larkin

TENTATIVE AGENDA

Thursday, December 16, 1999

Room 118, State Capitol

- 10:00 a.m. – 10:15 a.m. Preliminary Business
Approval of Minutes
Opening Remarks
- 10:15 a.m. – 11:15 a.m. Benefits Parity Report Concerning Public Safety Classifications within IPERS, PORS & MFPRSI
Carroll Bidler, Director of Administrative Services – PORS
Greg Cusack, Chief Benefits Officer - IPERS
Dennis Jacobs, Executive Director - MFPRSI
- 11:15 a.m. – 12:00 a.m. Follow Up Reports
Iowa Public Employees' Retirement System (IPERS)
Greg Cusack, Chief Benefits Officer
Municipal Fire and Police Retirement System of Iowa (MFPRSI – Chapter 411)
Dennis Jacobs, Executive Director
- 12:00 noon – 1:00 p.m. Lunch
- 1:00 p.m. – 1:30 p.m. Follow Up Reports - Continued
Peace Officers' Retirement System (PORS)
Carroll Bidler, Director of Administrative Services
Judicial Retirement System
Peggy Sullivan, Director of Finance and Personnel, Judicial Branch
- 1:30 p.m. – ????
- Committee Discussion
Judicial Retirement System Issues
Peace Officers' Retirement System (PORS) Issues
Municipal Fire and Police Retirement System of Iowa (MFPRSI) Issues
Iowa Public Employees' Retirement System (IPERS) Issues



MINUTES

Public Retirement Systems Committee

December 16, 1999

MEMBERS PRESENT:

Senator Sheldon Rittmer, Co-chairperson
Senator Mike Connolly
Senator Richard Drake
Senator John Kibbie
Senator Mary Lundby

Representative Mona Martin,
Co-chairperson
Representative John Connors
Representative Chuck Gipp
Representative Danny Holmes
Representative Richard Larkin

MEETING IN BRIEF

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Organizational staffing
provided by: Ed Cook,
Legal Counsel
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Minutes prepared by: Rick
Nelson, Legal Counsel
(515) 242-5822

- I. Procedural Business.
 - II. Benefits Parity Report – Public Safety Employees.
 - III. Follow-up Reports.
 - IV. Committee Discussion.
 - V. Written Materials Filed With the Legislative Service Bureau.
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Public Retirement Systems Committee

I. Procedural Business.

A. Call to Order.

The Public Retirement Systems Interim Study Committee was called to order at 10:08 a.m. on Thursday, December 16, 1999, in Room 118 of the State Capitol.

B. Opening Remarks.

Co-chairperson Martin welcomed Committee members, and indicated that the third meeting of the 1999 Legislative Interim would focus on the examination of proposals for changes and enhancements, and beginning the process of making recommendations.

C. Adjournment.

The meeting recessed for lunch at 12:30 p.m., reconvened at 1:30 p.m., and adjourned for the day at 3:45 p.m.

II. Benefits Parity Report – Public Safety Employees.

Carroll Bidler, Director of Administrative Services, Peace Officers' Retirement System (PORS); Dennis Jacobs, Executive Director of the Municipal Fire and Police Retirement System (MFPRSI); and Greg Cusack, Chief Benefits Officer, Iowa Public Employees' Retirement System, addressed the Committee concerning their report, completed at the request of the Committee, about the concept of providing parity of retirement benefits for all public safety employees.

The report, in priority order, recommended the following:

- A social security supplement benefit, beginning at age 62, for members of PORS and MFPRSI. The social security formula would be utilized, which is wage-based and weighted to the front end of salary. This would result in individuals at lower final pay levels receiving a higher percentage from the formula. A standard computation model would be utilized.
- A disability retirement benefit for IPERS public safety employees.
- Increasing benefits to mirror benefits provided other public safety employees, for IPERS protected occupation employees, regarding the number of years needed to reach a 60 percent benefit, and providing similar credit for extra years of service beyond the years necessary to obtain a 60 percent benefit. Contribution rates would be increased sufficiently to pay for the additional cost.
- Adopting a fixed contribution rate structure for IPERS public safety groups.

Upon the establishment of parity, the presenters indicated that alternatives exist concerning setting contribution rates. The alternatives are to keep the current contribution rates and retain the margin to provide a cushion for bad experience or to purchase further benefits, to reduce contribution rates for each individual year for the employer and employee on a prorated basis, or to provide for the establishment of



additional benefits other than pensions for future retirees or the extension of additional benefits to those already retired, to the extent the fund can afford it. A combination of the three alternatives could also be adopted.

The Committee discussed the extent to which true parity is a realistic goal, with commentary that emphasizing parity ignores the reality that covered groups will always be asking for increased or enhanced benefits, and that the criteria for achieving parity must first be established before benefit enhancements or increases can be considered. Mr. Bidler and Mr. Cusack indicated that the recommendations did not necessarily reflect the first choice of members of any of the systems, but that they have been settled upon in an effort to comply with the instruction that the systems work together toward recommendations achieving parity. Committee discussion also involved the extent to which a group can be considered large enough to constitute an experienced group from an actuarial standpoint, with Patrice Beckham, Consulting Actuary, indicating confidence in that regard. Mr. Bidler, Mr. Cusack, and Mr. Jacobs indicated that they appreciated the opportunity to meet and work out potential approaches to achieving parity. Co-chairperson Martin summarized the process whereby the instruction to meet to achieve parity was provided, and stated that the process will be beneficial in the future.

III. Follow-up Reports.

The following reports provided follow-up information based on requests made or material provided during the previous 1999 Interim meetings during the month of November:

A. IPERS.

Mr. Cusack distributed a memorandum discussing issues involving the effect of proposals for "higher paid" individuals compared to both the current law which utilizes a seven-year phase-in and the alternative of returning to the average of the highest three years immediately. The memorandum illustrates the impact for salary levels of \$70,000 and \$100,000 per year of increasing the default levels by \$10,000 per year and of also keeping the formula using seven years and six years, respectively. Mr. Cusack indicated that the default level increase results in a comparatively greater value to those at the lower end of the higher paid range, while providing little benefit to those at the relatively higher end of that range, but that freezing the multiyear averaging at six years, rather than increasing it to seven years, and returning to the highest three years in the year 2002 benefits all individuals in the entire higher paid range. Additionally, Mr. Cusack indicated that, in response to a request for suggestions regarding contributions by higher paid individuals if the highest three years were restored immediately, two options were proposed. The first would be the cost method used for buy-backs of previously refunded IPERS service, whereby a member pays only a portion of the share of the increased value of their benefits as a consequence of the buy-back. The second would be the cost method used for buy-ins of public service earned elsewhere, whereby the member pays all of the increased value of their benefits. Mr. Cusack cautioned that IPERS legal counsel had advised that Internal Revenue Service approval would be necessary prior to implementation.



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B. MFPRSI.

Mr. Jacobs provided draft copies of legislative recommendations regarding disability and nondisability-related provisions in Iowa Code chapter 411 governing MFPRSI. Nondisability related draft provisions include the addition of subrogation rights, a default priority in the event that a member fails to name a beneficiary, a clarification of break-in-service language, dropping reference to 22 years of service with reference to the earnings test, provision of a statutory basis for the system charging interest on late contributions by cities, a new provision permitting nonspouse beneficiary designations only with the spouse's consent, elimination of the two-year marriage requirement for widow's benefits, and provisions relating to technical corrections and effective dates. Disability-related draft provisions include providing that entrance examinations be conducted by the medical board, requiring the system to establish guidelines and protocols for ongoing wellness and fitness for police officers and fire fighters, removal of the requirement that the medical board be composed of physicians from the University of Iowa, a requirement that cities notify the system of the existence of a temporary disability of more than 60 days, amendment of reexamination provisions to permit suggested medical treatment or rehabilitation, amendments to ineligibility provisions, rehabilitation of disabled members with alcoholism or drug addiction as a contributing factor, limitations on payments to prisoners, funding for the comprehensive disability program, and technical corrections. In response to a request for comment by the Committee, a person representing the Iowa League of Cities indicated that the League supports much of the proposed legislative package, but that the question of a presumption in the case of a member who smokes has not but should have been addressed.

C. PORS.

Mr. Bidler informed the Committee of an error reported by the Auditor of State regarding receivables for investments sold in a financial statement for PORS which omitted receivables sold of approximately \$3.5 million. As a result of this error, the rate of return for the 12 months preceding June 30, 1999, has increased from 4.5 percent to 6.2 percent. Mr. Bidler also discussed an amendment to Iowa Code chapter 97A which would allow the board to adopt a smoothing mechanism, and he relayed information regarding the number of retired members not receiving credit for service in excess of 22 years, and a proposal for a lump sum payout.

D. Judicial Retirement System.

Peggy Sullivan, Director of Finance and Personnel, Judicial Branch, referred to a memorandum transmitted to Committee members identifying the cost to increase the maximum judicial retirement benefit from 52 to 56 percent, and from 52 to 60 percent. A spreadsheet attached to the memorandum indicates comparison cost and total cost for each 2 percent incremental increase from 52 to 60 percent. There was Committee discussion concerning the possibility of an increased contribution level on the part of members in the system to fund an increase.



IV. Committee Discussion.

A. The Committee discussed a number of potential recommendations based upon the preceding testimony, together with that received on November 16 and 17. The Committee adopted the following recommendations concerning IPERS:

1. Provide IPERS special public safety occupations with the same kind of disability benefits provided members of PORS and MFPRSI.
2. Increase the cost-of-living adjustment for members who retired prior to July 1990, from 80 percent of the consumer price index to 100 percent, retaining the existing ceiling of 3 percent.
3. Place a cap on the favorable experience reserve fund equivalent to 10 years of maximum payouts.
4. Improve the death benefit for the beneficiaries of those members who die before initiating retirement. Delay implementation until the cost can be absorbed within the current contribution rates.
5. Allow adjunct instructors at community colleges to elect coverage under IPERS if they already have an IPERS account. This proposal should not be adopted unless the Legislature decides to increase budgets for community colleges to pay for the cost of this option.
6. Allow elected officials other than legislators to terminate their full-time IPERS-covered positions and retire without having to resign their elected positions.
7. Create a "pop-up" option for retirement benefit option 4 to option 2 upon a contingent annuitant's death prior to the member's death.

B. The Committee failed to adopt the following IPERS recommendations:

1. Permit retirement without a reduction under the rule of 85 (age plus years of IPERS covered service) instead of 88. Delay implementation until the cost can be absorbed within the current contribution rates.
2. For public safety employees within IPERS, establish a fixed contribution rate for both employees and employers in order to provide a margin to purchase additional enhancements in order to further benefit parity among all public safety employees within IPERS, PORS, and MFPRSI.
3. Raise the ceiling on yearly reemployment wages for IPERS retirees under 65 years of age from \$12,000 to \$25,000.

C. The Committee agreed to defer action on the following proposals:

1. Upon the recommendation of IPERS staff, the Committee agreed to defer action on the proposal to replace the current "calendar year" determination for



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the computation of retirement benefits to 12 contiguous quarters until IPERS has established a viable legislative proposal.

2. Modify the current phase-in of the impact of the elimination of the cap on covered wages by increasing the default standard by \$10,000 per year, freezing the multiyear averaging at six years, and eliminating the phase-in effective January 2002.
3. For the Judicial Retirement System, the Committee agreed to defer action on the judge's proposal to increase the base retirement percentage to 60 percent until the judges respond to the Committee suggestion to increase the employee contribution rate to assist in paying for this increased benefit.
4. The Committee agreed to defer action on consideration of proposals concerning the PORS and MFPRSI retirement systems. The Committee urged the two retirement systems to discuss the benefit parity report with affected groups within each retirement system and consider their responses to this report.

At the conclusion of the meeting, Co-chairperson Rittmer indicated that the Committee might meet again early in the upcoming legislative session to consider further action on items which were deferred.

V. Written Materials Filed With the Legislative Service Bureau.

A. Materials mailed on December 9, 1999:

1. Proposed minutes for the November 16 and 17 meetings.
2. 1999 Briefings on Recent Meetings – Public Retirement Systems Committee.
3. June 30, 1999, actuarial information on Municipal Fire & Police Retirement System of Iowa (MFPRSI).
4. December 6, 1999, document – MFPRSI – Draft Nondisability Amendments with Explanation.
5. Iowa Public Employees' Retirement System – Actuarial Valuation Report as of June 30, 1999 (Executive Summary).
6. 1993 – 1998 Experience Study for Iowa Public Employees' Retirement System (Executive Summary).
7. IPERS – Executive Summary of Policy Options, re: Substitute Teachers.

B. Materials Distributed at the December 16, 1999, Public Retirement Interim Meeting:



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1. December 16, 1999, memorandum entitled "Issues Involving the 'Higher Paid' Within IPERS."
2. December 15, 1999, document regarding a PORS financial statement error.
3. December 10, 1999, memorandum regarding judicial retirement cost.
4. Report on the Concept of Parity, December 16, 1999.
5. December 16, 1999, document regarding PORS.
6. Document submitted on behalf of the Des Moines Independent Community School District Maintenance Council by Jesse Case.
7. December 16, 1999, Supplemental Report by MFPRSI.
8. House File 611, 1999 Legislative Session.
9. Document submitted by Richard J. Reddick regarding the Retired Iowa State Peace Officers Association benefit enhancement request.
10. Proposed Statutory Contribution Rates for IPERS Special Service Groups.

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